

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

DEARBORN HOUSING COMMISSION

Financial Statements

September 30, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

TABLE OF CONTENTS

	<u>Page</u>
Management Discussion and Analysis	i
Independent Auditor's Opinion	ii
 <u>FINANCIAL STATEMENTS</u>	
Combined Statement of Net Assets	2
Combined Statement of Revenues, Expenses, and Changes in Net Assets	3
Combined Statement of Cash Flows	4
Notes to Financial Statements	5
General Comment	11
 <u>SUPPLEMENTAL DATA</u>	
Combining Balance Sheet	13
Combining Statement of Income and Expenses	14
Schedule of Expenditures of Federal Awards	15
Status of Prior Audit Findings	16
Report on Compliance Applicable with Requirements to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	17
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Schedule of Findings and Questioned Cost	20



MICHAEL A. GUIDO
MAYOR

CITY OF DEARBORN

Home Town of Henry Ford

DEARBORN HOUSING COMMISSION
FLOYD ADDISON, JR. - DIRECTOR / SECRETARY

DOUGLAS GNIEWEK
President

THOMAS MANWELL
Vice President

PATRICIA HACKETT
LOUISE MONTEMAYOR
JUDY MOTLEY

DEARBORN HOUSING COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2004

The Dearborn Housing Commission management's discussion and analysis is designed to assist the reader in understanding the financial information presented in the 2004 Annual Report. This section provides a summary of the 2004 financial results to supplement the traditional series of financial statements. The discussion identifies changes, financial issues of concern and any challenges for subsequent years.

The Management Discussion and Analysis (MD&A) focus is on this years financial activities and includes comparison with the prior year financial information.

FINANCIAL HIGHLIGHTS

Dearborn Housing Commission's total assets decreased \$450,352 or 8% during 2004. Net Assets were \$5.24 million and \$5.69 million for 2004 and 2003 respectively.

Revenue for business type activities during 2004 decreased \$203,175 or 6% during 2004. Revenue in 2004 was \$3.47 million compared to \$3.67 million in 2003.

The total expenses of all the commission's programs increased \$238,483 or 7% during 2004 and were \$3.86 in 2004 and \$3.62 in 2003.

HUD operating grants were: Public Housing \$426,059, Section 8 Vouchers \$628,973, Section 8 New Construction \$1,473,993 and Capital Fund \$28,671. The total of all grants was \$2,557,696.

USING THIS ANNUAL REPORT

This annual report consists of the following:

MD&A – Management Discussion and Analysis

Basic Financial Statements – Statement of Net Assets
Statement of Revenue and Expense
And Changes in Net Assets
Statement of Cash Flows
Notes to Financial Statements

Other Required Supplementary Information - As Required.

THE COMMISSION FINANCIAL STATEMENTS

The Commission financial statements are designed like a corporation with all business type activities consolidated into one column for the entire Commission.

The **Statement of Net Assets**, which is similar to a Balance Sheet, reports all financial resources of the commissions. The assets and liabilities are reported in order of liquidity known as current and non-current. Assets minus liabilities equal net assets formally known as equity.

Net Assets are reported in two categories:

Invested in Capital Assets, Net of Related Debt: This is all Capital Assets reduces by depreciation, outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.

Unrestricted Net Assets: This consists of Net Asset that do not meet the definition of either restricted or net assets invested in capital assets net of related debt.

The **Statements of Revenues and Expenses** is similar to an income statement. This statement includes operating revenues such as rental, grants, other income and interest and operating expenses such as administrative, tenant services, utility expense and general.

To Complete the Statements, a **Statement of Cash Flows** is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities and capital from investing activities.

FUND FINANCIAL STATEMENTS

The Dearborn Housing Commission is an enterprise fund and accounts for all operations using full accrual basis of accounting including depreciation. The Enterprise method of accounting is similar to accounting used by the private sector.

The funds maintained by the Commission are required by the Department of Housing and Urban Development.

THE AUTHORITY'S FUNDS

Business Type funds

Conventional Public Housing - The Public Housing Program rents units to low-income households. The Conventional Public Housing Program is operating under an Annual Contribution Contract (ACC) with HUD providing Operating Subsidy. The client's rental is based on 30% of their household income. The Dearborn Housing public housing is designated for seniors only.

Public Housing Capital Fund - The Capital Grant program is the source of financing for management and physical improvements to the Public Housing Program.

Housing Choice Voucher Program – The Housing Choice Voucher Program allows low income clients to choose any housing that meets the programs guidelines within the Housing Commission jurisdiction. The Housing Commission administers the contract with independent landlords and clients. The Commission is under an ACC with HUD to provide subsidy to individuals renting from private landlords with yearly rectification for clients and inspection of each property. Individuals pay 30% of their adjusted gross income toward rental and HUD provides the remainder up the Fair Market Rent limits for the area. An administrative fee is paid to the Commission under the ACC.

Section 8 New Construction Contract Administration - The Section 8 New Construction Contract Administration is the Housing Commission acting as administrators for HUD of a privately owned Housing Project. The Housing Commission under contract with HUD oversees the inspection, subsidy, wait list and contract renewal. The Housing Commission acts for HUD with the private property owner submitting to the Housing Commissions all required reports. The Housing Commission is paid an administrative fee for their work under an ACC with HUD.

BALANCE SHEET

The following table reflects the condensed Balance Sheet compared to the prior year. The Commission is engaged only in Business-Type Activities.

Table 1
Balance Sheet

	2004	2003
Current and Other Assets	\$1,022,800	\$1,063,539
Capital Assets	4,219,153	4,628,766
Total Assets	<u>5,241,953</u>	<u>5,692,305</u>
Current and Other Liabilities	144,024	199,864
Long Term Liabilities	0	0
Total Liabilities	<u>144,024</u>	<u>199,864</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	4,219,153	4,628,766
Restricted	0	0
Unrestricted	878,776	863,675
Total Net Assets	<u>5,097,929</u>	<u>5,492,441</u>
Total Liabilities and Net Assets	<u>5,241,953</u>	<u>5,692,305</u>

Table 1 Comments:

Total assets decreased 8% or \$450,352 from \$5,692,305 in 2003 to \$5,241,953 in 2004. The decrease can largely be attributed to drop in accounts receivable and prepaid expenses.

Current accounts payable declined from \$104,213 in 2003 to \$55,119 in 2004 a 48% change.

Capital Assets decreased by 9% with Capital Grant investment of \$110,826 and retired assets of \$3,434 less the current year depreciation of \$519,455.

The decline in the capital grant activities is the major factor influencing the decrease in balance sheet activities.

Table 2
Statement of Revenues and Expenses

This schedule compares the revenue and expenses of 2004 and 2003. The Dearborn Housing Commission operates in Business Type activities.

	2004	2003
Revenues		
Tenant Revenue and Other	\$785,900	\$794,279
Operating Subsidies and Grants	2,557,696	2,433,120
Capital Grants	110,826	429,456
Investment Income	10,907	11,433
Other Revenue	1,142	1,358
Total Revenue	\$3,466,471	\$3,669,646
Expenses		
Administrative	295,510	332,966
Tenant Services	46,213	34,918
Utilities	355,354	344,722
Maintenance	586,612	552,841
General	56,534	47,812
Housing Assistance Payments	1,998,237	1,858,470
Depreciation	522,888	460,906
Total Expenses	\$3,861,118	\$3,622,635
Net Increases	\$(394,647)	\$47,011

Fiscal year 2004 resulted in a significant operating loss from 2003. HUD reduced the housing subsidy by 5.3% and the utility adjustment was discontinued in the amount of \$21,987. In addition, actual rental revenue per unit was \$190.16 down from the subsidy projected amount of \$192.09. The total amount for these differences is \$53,544.

Capital fund revenue was \$110,826 down by 75% from the prior year. The Capital Grant funds depend on the amount of activity during the fiscal year. The revenue is only recorded when the related expenditure is complete.

Administrative costs declined in 2004 with the loss of two staff members, while utilities continued to increase modestly. Insurance premiums increased 22% and maintenance and repairs expenses were 7% more than 2003 with much of that increase spent on our oldest building.

TABLE 4
CAPITAL ASSETS AT YEAR END
(NET OF DEPRECIATION)

	2004	2003
Land	\$218,000	\$218,000
Buildings	6,554,020	6,554,020
Equipment Dwelling	254,084	255,068
Equipment Administration	71,339	71,339
Leasehold Improvements	5,597,999	5,487,173
Accumulated Depreciation	\$(8,476,289)	\$(7,956,834)
Total	<u>\$4,219,153</u>	<u>\$4,628,766</u>

The Housing Commission over the past year has invested \$2,450 in dwelling equipment and retired \$3,434. The dwelling equipment is refrigerators and stoves from our buildings and operating equipment having a single purchase price over \$2,500. The leasehold improvements to the building amounted to \$110,826 for the balance of a project to installing new doors and hardware and starting the elevator renovation specifications.

DEBT OUTSTANDING

The Dearborn Housing Commission has reclassified the HUD Guaranteed Debt and Contributed Capital after September 30, 1999. The reclassification is due to the conversion from the HUD basis of accounting to the Generally Accepted Accounting Principles known as (GAAP).

In 2004, HUD made bond payments directly to the lender in the amount of \$100,790.

The Commission has no other debt.

HOUSING COMMISSION BUDGET

An annual operating budget is submitted in compliance with the Department of Housing and Urban Development for approval to The Dearborn Housing Commission. The 2004 budget was approved by the Commission on May 8, 2003, with no occasion for subsequent review.

ECONOMIC FACTORS

The Dearborn Housing Commission has been affected by many of the same factors as other business and government in this economy. Factors influencing our operations are:

Federal regulations and funding by the Department of Housing and Urban Development.

Continued increases in utilities rates.

Increased health care benefits for employees.

Aging building stock requiring more extensive repairs.

FINANCIAL CONTRACT

If you have any question about this report or need additional information, contact Arlene P. Edmonds, at (313)943-221. Specific requests may be sent to The Dearborn Housing Commission, 13615 Michigan Ave., Dearborn MI 48126.



Arlene P. Edmonds
Accountant
Dearborn Housing Commission

John C. DiPiero, P.C.

Certified Public Accountant

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Hemlock, Michigan 48626
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Board of Commissioners
Dearborn Housing Commission
13615 Michigan
Dearborn, Michigan 48126

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Dearborn Housing Commission as of and for the year ended September 30, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dearborn Housing Commission as of September 30, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principals.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 3, 2005 on my consideration of the Dearborn Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

June 3, 2005

Dearborn Housing Commission

30-Sep-04

MI003

Combining Balance Sheet		Low Rent 14.850	Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	N/C Section 8 Program	TOTAL
Line Item #						
	ASSETS:					
	CURRENT ASSETS:					
	Cash:					
111	Cash - unrestricted	860,321	20,075	-	79,853	960,249
112	Cash - restricted - modernization and development	-				-
113	Cash - other restricted					-
114	Cash - tenant security deposits					-
100	Total cash	860,321	20,075	-	79,853	960,249
	Accounts and notes receivables:					
121	Accounts receivable - PHA projects					-
122	Accounts receivable - HUD other projects	-		35,469		35,469
124	Accounts receivable - other government					-
125	Accounts receivable - miscellaneous	10				10
126	Accounts receivable- tenants - dwelling rents	608				608
126.1	Allowance for doubtful accounts - dwelling rents	(580)				(580)
126.2	Allowance for doubtful accounts - other					-
127	Notes and mortgages receivable- current					-
128	Fraud recovery		6,686			6,686
128.1	Allowance for doubtful accounts - fraud					-
129	Accrued interest receivable	743				743
120	Total receivables, net of allowances for doubtful accounts	781	6,686	35,469	-	42,936
	Current investments					-
131	Investments - unrestricted	-				-
132	Investments - restricted					-
142	Prepaid expenses and other assets	10,454	26			10,480
143	Inventories	9,615				9,615
143.1	Allowance for obsolete inventories	(480)				(480)
144	Interprogram - due from	-	-	-		-
146	Amounts to be provided					-
150	TOTAL CURRENT ASSETS	880,691	26,787	35,469	79,853	1,022,800
	NONCURRENT ASSETS:					
	Fixed assets:					
161	Land	218,000				218,000
162	Buildings	6,554,020				6,554,020
163	Furniture, equipment & machinery - dwellings	254,084				254,084
164	Furniture, equipment & machinery - administration	49,668	-	21,671		71,339
165	Leasehold improvements	5,063,061		534,938	-	5,597,999
166	Accumulated depreciation	(8,476,289)	-	-		(8,476,289)
160	Total fixed assets, net of accumulated depreciation	3,662,544	-	556,609	-	4,219,153
171	Notes and mortgages receivable - non-current					-
172	Notes and mortgages receivable-non-current-past due					-
174	Other assets					-
175	Undistributed debits					-
176	Investment in joint ventures					-
180	TOTAL NONCURRENT ASSETS	3,662,544	-	556,609	-	4,219,153
190	TOTAL ASSETS	4,543,235	26,787	592,078	79,853	5,241,953

Dearborn Housing Commission

30-Sep-04

MI003

	Combining Balance Sheet	Low Rent 14.850	Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	N/C Section 8 Program	TOTAL
Line Item #						
	LIABILITIES AND EQUITY					
	LIABILITIES:					
	CURRENT LIABILITIES					
311	Bank overdraft					-
312	Accounts payable ≤ 90 days	19,650		35,469	-	55,119
313	Accounts payable > 90 days past due					-
321	Accrued wage/payroll taxes payable	4,005				4,005
322	Accrued compensated absences	-				-
324	Accrued contingency liability					-
325	Accrued interest payable					-
331	Accounts payable - HUD PHA programs		17,864		7,995	25,859
332	Accounts Payable - PHA Projects					-
333	Accounts payable - other government	-	-	-		-
341	Tenant security deposits	50,379				50,379
342	Deferred revenues	8,662				8,662
343	Current portion of Long-Term debt - capital projects					-
344	Current portion of Long-Term debt - operating borrowings					-
345	Other current liabilities	-				-
346	Accrued liabilities - other	-	-			-
347	Inter-program - due to	-	-	-	-	-
310	TOTAL CURRENT LIABILITIES	82,696	17,864	35,469	7,995	144,024
	NONCURRENT LIABILITIES					
351	Long-term debt, net of current- capital projects					-
352	Long-term debt, net of current- operating borrowings					-
353	Noncurrent liabilities- other	-				-
350	TOTAL NONCURRENT LIABILITIES	-	-	-	-	-
300	TOTAL LIABILITIES	82,696	17,864	35,469	7,995	144,024
	EQUITY:					
501	Investment in general fixed assets					-
	Contributed Capital:					
502	Project notes (HUD)					-
503	Long-term debt - HUD guaranteed	-				-
504	Net HUD PHA contributions	-			-	-
505	Other HUD contributions					-
508.01	Net Assets invested in Capital Assets	3,662,544		556,609		4,219,153
508	Total contributed capital	3,662,544	-	556,609	-	4,219,153
	Reserved fund balance:					-
509	Reserved for operating activities					-
510	Reserved for capital activities					-
511	Total reserved fund balance	-	-	-	-	-
512	Undesignated fund balance/retained earnings	797,995	8,923	-	71,858	878,776
513	TOTAL EQUITY	4,460,539	8,923	556,609	71,858	5,097,929
600	TOTAL LIABILITIES AND EQUITY	4,543,235	26,787	592,078	79,853	5,241,953

Dearborn Housing Commission

30-Sep-04

MI003

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	N/C Section 8 Program	TOTAL
Line Item #				-		
	REVENUE:	-	-			
703	Net tenant rental revenue	736,082				736,082
704	Tenant revenue - other	49,818				49,818
705	Total tenant revenue	785,900	-	-	-	785,900
706	HUD PHA grants	426,059	628,973	139,497	1,473,993	2,668,522
708	Other government grants					-
711	Investment income - unrestricted	9,634	368	-	905	10,907
712	Mortgage interest income					-
714	Fraud recovery		1,108			1,108
715	Other revenue	-	34	-		34
716	Gain or loss on the sale of fixed assets					-
720	Investment income - restricted					-
700	TOTAL REVENUE	1,221,593	630,483	139,497	1,474,898	3,466,471
	EXPENSES:					
	Administrative					
911	Administrative salaries	112,980	-			112,980
912	Auditing fees	2,275	350		875	3,500
913	Outside management fees				51,935	51,935
914	Compensated absences	-				-
915	Employee benefit contributions- administrative	46,643	-			46,643
916	Other operating- administrative	28,374	52,078	-	-	80,452
	Tenant services					
921	Tenant services - salaries	11,195				11,195
922	Relocation costs	-				-
923	Employee benefit contributions- tenant services	1,578				1,578
924	Tenant services - other	33,440				33,440
	Utilities					
931	Water	23,777				23,777
932	Electricity	128,134				128,134
933	Gas	153,406				153,406
934	Fuel					-
935	Labor					-
937	Employee benefit contributions- utilities					-
938	Other utilities expense	50,037				50,037
	Ordinary maintenance & operation					
941	Ordinary maintenance and operations - labor	268,471				268,471
942	Ordinary maintenance and operations - materials & other	22,200		28,671		50,871
943	Ordinary maintenance and operations - contract costs	125,442				125,442
945	Employee benefit contributions- ordinary maintenance	141,828				141,828
	Protective services					
951	Protective services - labor					-

Dearborn Housing Commission

30-Sep-04

MI003

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	N/C Section 8 Program	TOTAL
Line Item #				-		
952	Protective services- other contract costs					-
953	Protective services - other					-
955	Employee benefit contributions- protective services					-
	General expenses					
961	Insurance premiums	56,534				56,534
962	Other General Expenses					
963	Payments in lieu of taxes	-				-
964	Bad debt - tenant rents	(230)				(230)
965	Bad debt- mortgages					-
966	Bad debt - other					-
967	Interest expense					-
968	Severance expense	-				-
969	TOTAL OPERATING EXPENSES	1,206,084	52,428	28,671	52,810	1,339,993
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	15,509	578,055	110,826	1,422,088	2,126,478
971	Extraordinary maintenance	-				-
972	Casualty losses - non-capitalized	-				-
973	Housing assistance payments		576,845	-	1,421,392	1,998,237
974	Depreciation expense	522,888				522,888
975	Fraud losses					-
976	Capital outlays- governmental funds	-			-	-
977	Debt principal payment- governmental funds					-
978	Dwelling units rent expense					-
900	TOTAL EXPENSES	1,728,972	629,273	28,671	1,474,202	3,861,118
	OTHER FINANCING SOURCES (USES)					
1001	Operating transfers in (out)	-		-		-
1002	Operating transfers out					-
1003	Operating transfers from/to primary government					-
1004	Operating transfers from/to component unit					-
1005	Proceeds from notes, loans and bonds					-
1006	Proceeds from property sales					-
1010	TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (U	(507,379)	1,210	110,826	696	(394,647)

DEARBORN HOUSING COMMISSION
Combined Statement of Net Assets
September 30, 2004

ASSETS

C-3042

CURRENT ASSETS

Cash	\$ 960,249
Accounts Receivable- Tenants (net of allowance of \$ 580)	28
Accounts Receivable- HUD	35,469
Accounts Receivable- Other	7,439
Prepaid Expenses	10,480
Inventory- (net of allowance of \$ 480)	<u>9,135</u>

Total Current Assets	\$ 1,022,800
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NON CURRENT ASSETS

Land	\$ 218,000
Buildings	6,554,020
Furniture, Equipment- Dwelling	254,084
Furniture, Equipment- Administrative	71,339
Leasehold Improvements	5,597,999
Accumulated Depreciation	<u>(8,476,289)</u>

Total Non Current Assets	<u>4,219,153</u>
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TOTAL ASSETS

\$ 5,241,953

DEARBORN HOUSING COMMISSION
Combined Statement of Net Assets
September 30, 2004

LIABILITIES & NET ASSETS

C-3042

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	55,119	
Accrued Wages & Payroll Taxes		4,005	
Tenants Security Deposit		50,379	
Accounts Payable- HUD		25,859	
Deferred Revenue		<u>8,662</u>	
<u>Total Current Liabilities</u>	\$		144,024

NET ASSETS:

Invested in Capital Assets, net of Related Debt	\$	4,219,153	
Unrestricted		<u>878,776</u>	
<u>Total Net Assets</u>			<u>5,097,929</u>

<u>TOTAL LIABILITIES & NET ASSETS</u>	\$	<u>5,241,953</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

DEARBORN HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended September 30, 2004

OPERATING REVENUES

Tenant Rental Revenue	\$ 736,082
Tenant Revenue- Other	49,818
HUD Grants	2,668,522
Interest Income	10,907
Other Income	<u>1,142</u>

<u>Total Operating Revenue</u>	\$ 3,466,471
--------------------------------	--------------

OPERATING EXPENSES

Administrative	\$ 295,510
Tenant Services	46,213
Utility Expenses	355,354
Ordinary Maintenance	586,612
General Expenses	<u>56,304</u>

<u>Total Operating Expenses</u>	<u>1,339,993</u>
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<u>Operating Income (Loss)</u>	\$ 2,126,478
--------------------------------	--------------

NONOPERATING REVENUES (EXPENSES)

Housing Assistance Payments	\$ (1,998,237)
Depreciation Expenses	<u>(522,888)</u>

<u>Total Nonoperating Revenues (Expenses)</u>	<u>(2,521,125)</u>
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<u>Change in Net Assets</u>	\$ (394,647)
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Total Net Assets- Beginning	<u>5,492,576</u>
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Total Net Assets- Ending	\$ <u>5,097,929</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

DEARBORN HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended September 30, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 790,899
Payments to Suppliers	(2,908,876)
Payments to Employees	(392,646)
HUD Grants	2,668,522
Other Receipts (Payments)	<u>12,049</u>
Net Cash Provided (Used) by Operating Activities	\$ 169,948

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	<u>(110,826)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 59,122
Balance- Beginning of Year	<u>901,127</u>
Balance- End of Year	\$ <u>960,249</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (394,647)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	522,888
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	30,010
Prepaid Expenses	69,851
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(51,408)
Account Payable- HUD	(709)
Accrued Liabilities	4,005
Deferred Revenue	(4,449)
Security Deposits	<u>(5,593)</u>
Net Cash Provided by Operating Activities	\$ <u>169,948</u>

The Accompanying Notes are an Integral part of the Financial Statements

DEARBORN HOUSING COMMISSION
Notes to Financial Statements
September 30, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Dearborn Housing Commission, Dearborn, Michigan, (Commission) was created by ordinance of the city of Dearborn. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 3-1,2,3	Low rent program	333 units
MI 28E001-003	Section 8 Certificates	96 units
MI 280014-004	Section 8 Administrative	152 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board, (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

Petty Cash	\$ 200
Checking Accounts	<u>105,049</u>
	\$ 105,249
Investments reclassified as Cash Equivalents	<u>855,000</u>
Financial Statement Total	<u>\$ 960,249</u>

Investments:

Certificates of Deposit	\$ 855,000
Reclassified as cash equivalents	<u>(855,000)</u>
Financial Statement Total	<u>\$ 0</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 105,049	\$	\$	\$ 105,049	\$ 105,049
C/D's	855,000			855,000	855,000
Petty Cash	<u>200</u>			<u>200</u>	<u>200</u>
Total Cash	\$ <u>960,249</u>	\$	\$	\$ <u>960,249</u>	\$ <u>960,249</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance	\$ 10,454
Miscellaneous	<u>26</u>
Financial Statement Total	\$ <u>10,480</u>

Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 218,000	\$	\$	\$ 218,000
Buildings	6,554,020			6,554,020
Furniture & Equipment-Dwellings	255,068		984	254,084
Furniture & Equipment-Administrative	71,339			71,339
Leasehold Improvements	<u>5,487,173</u>	<u>110,826</u>		<u>5,597,999</u>
	\$12,585,600	\$ 110,826	\$ 984	\$12,695,442
Less Accumulated Depreciation	<u>7,954,385</u>	<u>522,888</u>	<u>984</u>	<u>8,476,289</u>
	\$ <u>4,631,215</u>	\$ <u>(412,062)</u>	\$	\$ <u>4,219,153</u>

Notes to Financial Statements- continued

Note 5: Pension Disclosures

The Commission employees are city employees, (see General Comment). The employees pension plan statistical information is included in the City of Dearborn annual report; Housing Commission employee statistical data is unavailable.

The pensions offered consist of the following:

Effective July 1, 2002, or when implemented

A) FEATURES OF DEFINED CONTRIBUTION PLAN

- 1) Employee must contribute 2% of pay, and City must contribute 4% of pay.
- 2) For each additional 1% of pay (up to a total of 5%) City will contribute 1.33 % of pay.
- 3) Employee contributes above 5 % of pay will not be matched by City. Maximum City contribution is 8 % of pay.
- 4) Vesting after 5 years. Includes employee service prior to conversion date.

B) PARTICIPATION

- 1) All unit employees hired on and after July 1, 2002 must only participate in the City's Defined Contribution Plan ("DC Plan"), regardless of any future promotion to a non-unit position.
- 2) All unit employees hired on and before July 1, 2002, have, initially, three (3) options:
 - a) Stay in chapter 22 (the "DB Plan")
 - b) Freeze BD Plan benefit and go forward only in DC Plan
 - c) Withdraw balance from BD Plan, put it in DC Plan, and go forward only in DC Plan
- 3) All unit employees hired on and before July 1, 2002, have a second opportunity to join DC Plan when they are capped at 30 years under DB Plan.

C: OTHER

- 1) Conversion periods:
 - a) To be determined
 - b) After 30year cap, six (6) months after cap becomes effective
- 2) Other terms and conditions as provided in plan description and documents, as and when finalized.

Notes to Financial Statements, continued

Note 5: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 55,247,990
General Liability	1,000,000
Dishonesty Bond	50,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 6: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 7: Combining Financial Data Schedules.

The totals in the Combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

DEARBORN HOUSING COMMISSION
General Comment
September 30, 2004

The Dearborn Housing Commission (Commission) employees are City of Dearborn employees. The Commission reimburses the City of Dearborn for all wages, payroll taxes and benefits such as health insurance and pension cost for current employees; the Commission also prepays employees retirement health benefits as a percentage of the current pay. Once an employee retires, no further funding is charged.

This is a complicated issue which deserves some discussion. A question was raised by HUD at another Commission with similar treatment concerning the use of public housing funds to reimburse the City of Dearborn for pension and health insurance liabilities for retired City employees who were assigned to work for the Commission. HUD stated in a communication "these expenditures are inappropriate for the PHA to make because they are obligations incurred by the City of Dearborn, as agreed to in the collective bargaining agreement. They are not legitimate expenses of the PHA's."

The above position appears to be very definitive, but it is problematic; not only does this prohibition address the current year, it would also indicate those cost are ineligible in prior years. HUD's communication briefly touched upon the possibility of a court decision which may impact its position. The communication also failed to address the treatment of the amounts spent in the current year as well as past years.

In my opinion, this is equivalent to a legal fiction. The substance of the matter is whether these employees worked for the City, or for the Commission. In fact, they served the interest of the Commission; the Commission had direct supervision of the employees, the employees reported for work to the Commission, and the Commission's management had the right to terminate said employees. It seems too convenient for HUD to allege further obligations are not the responsibility of the Commission. In other areas, such as the Davis Bacon Act, HUD mandates that prevailing (local) wages and benefits be afforded contractor's employees, but when the prevailing (local) benefits call for post retirement benefits for Commission employees, HUD chooses to abandon those obligations.

This issue supersedes the current reporting period; post retirement benefits have been paid for retired Commission (City) employees for the past several years. In the years when HUD required the submission and approval of annual budgets, post retirement cost were included as a line item and approved by HUD. Office of Management and Budget (OMB) cost principle circulars A-87, A-110, and A-133 all address allowable cost issues; certain cost are unallowable unless specifically approved by the funding source; since budgets have been approved in the past including such cost, it would appear these are allowable cost.

Finally, a precedence has been set both in practice and in law. As stated above, Federal laws such as the Davis Bacon Act requires the recognition of prevailing wages and benefits in construction contracts, and, previously approved budgets specific allow the inclusion of post retirement benefits as an allowable cost. In addition, to disallow these cost currently or prospectively without addressing the prior periods would be inconsistent; such treatment could constitute a change in accounting principle which may require a qualified report.

The current financial statement presentation includes the post retirement benefits as it has in all prior years; no accrual has been made for any possible account receivable for the current or prior periods.

This comment is designed to inform the reader of the pending situation and the current treatment in the financial statements of post retirement cost. The ultimate resolution and treatment of the current and past cost is unknown at this time.

DEARBORN HOUSING COMMISSION
Schedule of Annual Federal Awards
For the Year Ended September 30, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
<u>CFDA 14.850 Public and Indian Housing</u>	
* C-3042 Operating Subsidies	\$ <u>426,059</u>
* <u>CFDA 14.871 Housing Assistance Programs</u>	
C-3042E Village Park, Sec 8 Administrative	\$ 1,473,993
Section 8 Housing Choice Vouchers	<u>628,973</u>
	<u>\$ 2,102,966</u>
 <u>CFDA 14.872 Capital Projects Funds</u>	
C-3042 Capital Funds Grant	\$ <u>139,497</u>
	 <u>\$ 2,668,522</u>

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 55,247,990
General Liability	1,000,000
Dishonesty Bond	50,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

DEARBORN HOUSING COMMISSION
Status of Prior Audit Findings
September 30, 2004

The prior audit of the Dearborn Housing Commission for the period ended September 30, 2003, contained one audit finding. The corrective actions taken by the Commission is as follows:

- 1) Tenant Accounting Discrepancies- The current test of files did not reveal any discrepancies; this finding has been resolved satisfactorily.

DEARBORN HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
September 30, 2004

Compliance

I have audited the compliance of Dearborn Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2004. Dearborn Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Dearborn Housing Commission's management. My responsibility is to express an opinion on Dearborn Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dearborn Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Dearborn Housing Commission's compliance with those requirements.

In my opinion, Dearborn Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control over Compliance

The management of Dearborn Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Dearborn Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 3, 2005

DEARBORN HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
September 30, 2004

I have audited the financial statements of Dearborn Housing Commission, Dearborn, Michigan, as of and for the year ended September 30, 2004, and have issued my report thereon dated June 3, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Dearborn Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Dearborn Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Dearborn Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 3, 2005

DEARBORN HOUSING COMMISSION
Schedule of Findings and Questioned Cost
September 30, 2004

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
New Construction Section 8 Program	X	
Housing Choice Vouchers	X	
Capital Fund Project		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
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Reportable condition(s) noted	_____ Yes	_____ <u>X</u> No
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Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No
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Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted	_____ Yes	_____ <u>X</u> No
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Reportable condition(s) noted	_____ Yes	_____ <u>X</u> No
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Non Compliance material to financial statements noted	_____ Yes	_____ <u>X</u> No
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